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3 December 1954

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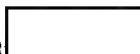


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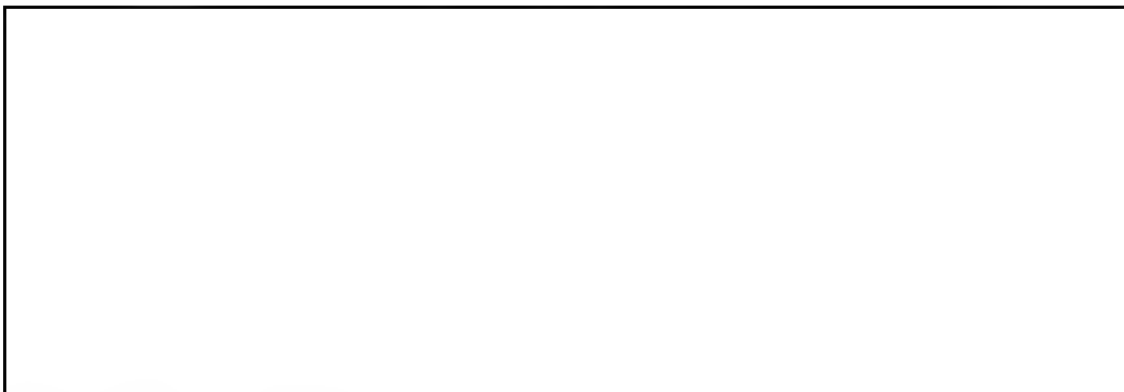


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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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State Department review completed

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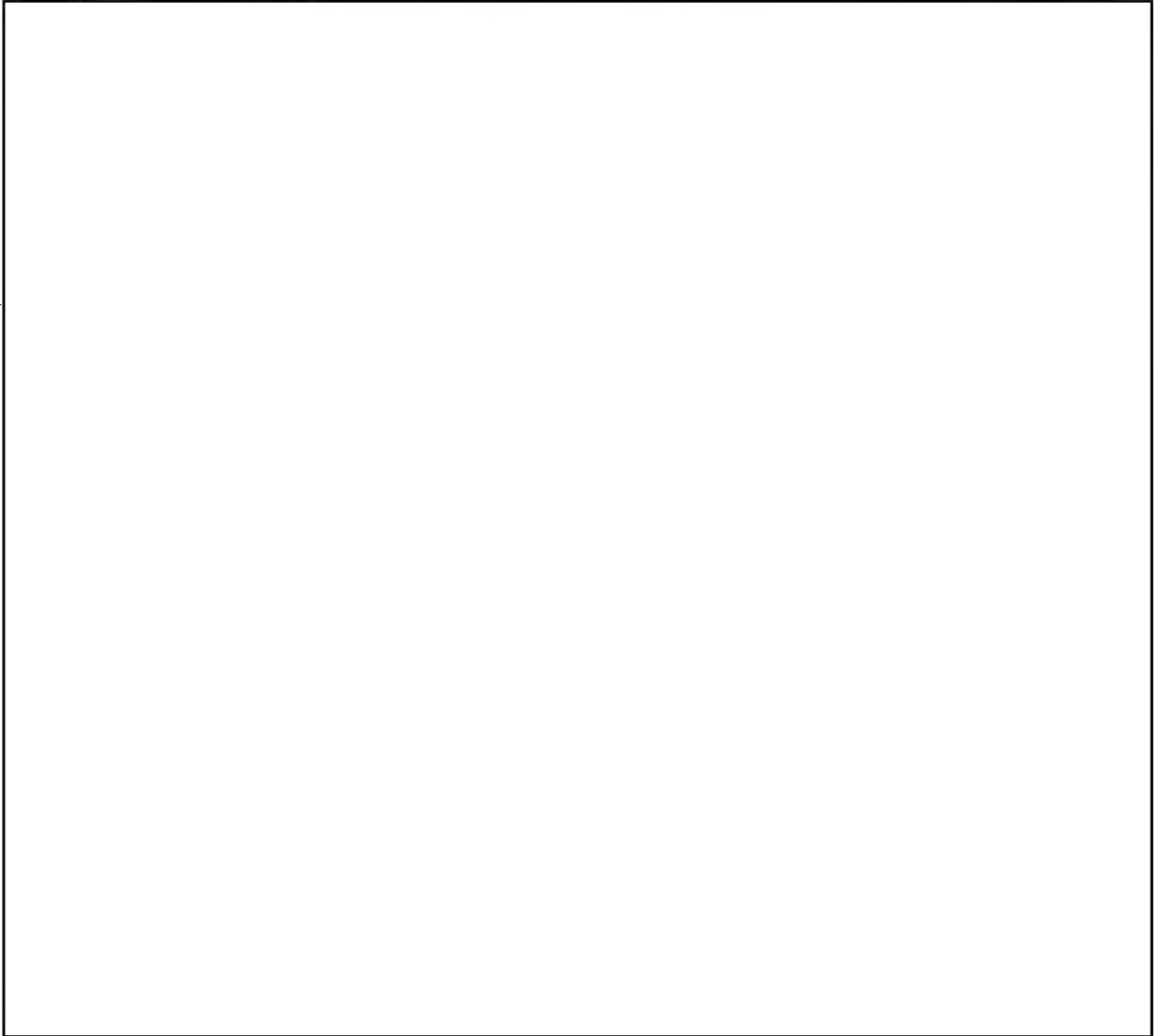
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SOVIET UNION

2. USSR reportedly grants new credits to East Germany and Hungary:

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The USSR has granted East Germany credits equivalent to approximately \$161, 000, 000, which may be drawn

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upon in any desired currency,

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in order to

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alleviate the Hungarian economic situation, the USSR has advanced Hungary \$27,000,000 in the form of vanadium, chrome, cobalt and consumers' goods.

Comment:

the Malenkov government is giving special economic assistance to hard-pressed Satellites. Both East Germany and Hungary have been experiencing severe economic difficulties.

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After a period of more than two years during which no known credits were granted to the European Satellites, the Malenkov regime in August 1953 granted East Germany a \$121,250,000 credit, including \$34,750,000 of free currency.

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While the most recently reported \$161,000,000 credit appears unusually large in view of the magnitude of the 1953 loan, the unique "show-window" position of East Germany vis-a-vis West Germany may have caused the USSR to give special consideration to this country. (Concurred in by ORR)

SOUTHEAST ASIA

3. American consulate surveys situation in Hanoi :

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The American consul in Hanoi, summing up the situation since the Viet Minh take-over, notes that considerable obscurity still surrounds the power structure of

the government. The headquarters of the government is still in the mountain village of Thai Nguyen, rather than in Hanoi itself, and Ho Chi Minh and Commander in Chief Vo Nguyen Giap rarely make public appearances.

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[] Russian, Chinese, and "pure" Viet Minh influence prevails in varying degrees from one branch of the government to another. The consul notes that Communist China has been accorded secondary status in Viet Minh propaganda in contrast to obsequious praise of the USSR.

The positions of foreign representatives differ widely. The Russians and the Chinese enjoy full diplomatic status, and Sainteny, the French representative, has almost equal standing. The British consul general has been "provisionally recognized," whereas the Viet Minh apparently intends to force the American consulate out by harassing tactics. The consul is impressed by Sainteny's evident determination to "compensate" for the breakdown of the agreements he negotiated with the Viet Minh in 1946. Viet Minh anti-French propaganda is concentrated on the military. It avoids attacks on Sainteny and seldom criticizes Mendes-France.

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NEAR EAST - AFRICA

5. Saudi king requests US economic aid for railroad project:

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King Saud wishes to obtain an American grant--not a loan--in order to start construction of the proposed Riyadh-Jidda railroad, according to Deputy

Foreign Minister Yassin. Yassin asked Ambassador Wadsworth on 29 November whether the United States is prepared to help Saudi Arabia construct the railroad in the same way that Washington is helping Egypt and other countries.

Comment: Saud's present interest in American assistance is a considerable change from the attitude he displayed earlier this year, when he refused American military grant aid and turned down Point Four assistance.

The value of the railroad project is dubious. The proposed line would cover some 800 miles and link the Red Sea port of Jidda with Riyadh, the official capital. Riyadh is connected with Damman on the Persian Gulf by a railroad completed in October 1951.

6. Libyan prime minister firm on question of French withdrawal from Fezzan:

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Libyan prime minister Ben Halim has told Ambassador Tappin in Tripoli that he will be "forced" to disclose the entire

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history of the negotiations with France, as well as Paris' refusal to withdraw French military forces from the Fezzan--southern province of Libya--in his speech from the throne at the 9 December opening of parliament unless Libya receives a "favorable reply" from France.

Referring to France's "outdated colonial attitude, " Ben Halim emphasized that no Libyan government could survive if it sought renewal of the present provisional agreement with France beyond its expiration date of 31 December or if it proposed any agreement in future which permitted France to maintain troops in the Fezzan.

Comment: There is little prospect that France will modify its position on maintaining troops in the Fezzan.

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In view of the strong anti-French sentiment in the Libyan parliament and France's unyielding attitude, no compromise appears to be in sight.

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EASTERN EUROPE

7. Polish Ministry of Public Security reported undergoing shake-up:

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Several high officials in the Polish Ministry of Public Security have been arrested and others are threatened with removal because of past misdeeds.

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The central control committee of the Polish United Workers Party is reported to be considering abolishing the ministry and integrating part of its components into a new Ministry of Internal Affairs.

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Concurrently the Poles have released General Komar and are about to liberate other high-level political prisoners, including General Spychalski.

Comment: A thoroughgoing shake-up in the Ministry of Public Security is probably already in process, partly as a result of the defection of Jozef Swiatlo.

General Spychalski, former minister of reconstruction, was dropped from the politburo and the government in 1949 and subsequently arrested on charges of nationalist deviation. General Komar at the time of his arrest was quartermaster general of the armed forces. Previously he had been chief of army intelligence. He was arrested during the Satellite anti-Zionist campaign on charges of maintaining foreign espionage connections and contacts with nationalist deviationists including Spychalski.

The release of Spychalski and Komar would be in line with the regime's attempt to gain confidence and support within the party for new course policies, and the responsibility for their arrest would be among the misdeeds charged to high officials in the Ministry of Public Security.

WESTERN EUROPE

8. London embassy sees French set on unilateral demarche in Moscow:

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French premier Mendes-France is so determined to carry out a unilateral demarche in Moscow as a follow-up to his suggestion at the UN for an East-West agreement on Austria that he can be deterred only by "direct personal representation," in the opinion of the American embassy in London. The embassy notes that at a tripartite consultation on Austria on 1 December the French representative argued that Mendes-France's address at the UN did not alter the tripartite position, but was only a harmless "tactical gesture."

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Comment: French Foreign Ministry officials have also privately depreciated the premier's suggestion at the UN that an Eastern European security bloc having arms limitation and control features similar to the projected Western European Union might be a prelude to general disarmament agreements.

There are increasing indications that Mendes-France's ideas on East-West relations are stemming not from his professional foreign affairs advisers but from Georges Boris and other members of his personal entourage--who believe that their "realistic" ideas have more appeal to the Russians than do UN discussions on disarmament.

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9. Comment on probable postponement of French debate on Paris accords:

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The demand of the French National Assembly's Foreign Affairs Committee that assembly debate on the Paris accords be postponed from 14 to 20 December was apparently due largely to mounting dissatisfaction with the French-German agreement on the Saar.

The committee had been irritated earlier over the government's delay in formally submitting to it the texts of the Paris accords, which were finally given to the committee only last week. This delay, according to a Foreign Ministry official, was due to the fact that the government felt compelled to rewrite its "brief" accompanying the Saar agreement text after the terms of the West German government's draft bill became known in Paris. The preamble to the German text contains references to the provisional character of the settlement which makes it distasteful to the French.

The Saar agreement concluded in October was initially regarded in France as a diplomatic victory, and the American embassy believed it might induce the assembly to accept the other Paris accords on German rearmament. Revelation of

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the terms of the German bill is greatly diminishing the agreement's value in this respect, however. Postponement of the debate favors the growing opposition to the Paris accords, but Mendes-France will probably refuse further delay, if necessary by calling a vote of confidence on this point. He would probably win such a vote.

LATIN AMERICA

10. Solution of Honduran presidential succession may be near:

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	Congressmen of ex-dictator Carias' Nationalist Party will prevent installation of the recently elected congress in Honduras on 5 December by boycotting the session.
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The American embassy in Tegucigalpa comments that such action, which it believes probable, would result in continuation in office of the present regime under President Galvez or Vice President Lozano.

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Comment: There are other indications that Carias would support continuation of the current administration, and from various viewpoints this would probably be the best solution to the deadlock occasioned by the inconclusive October presidential election. None of the three presidential candidates received the majority required for popular election in October. The constitution empowers Congress in such a case to select the new president, who would normally take office in January.

Lozano, acting president while Galvez is out of the country, told the embassy on 24 November that if Congress failed to convene and choose a president, he or Galvez would assume full powers until a constituent assembly could be elected to restore constitutional processes. On 1 December Lozano stated that he foresaw no violence as a result of this arrangement since it would leave all parties some hope for participation in the government and in a national advisory board which would draft a new constitution.

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